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An Analysis of Inflation Effects on Purchasing Power among Low-Income Households in Urban Areas

Junaidi Hartawan[1*], Maria Gonzalez[2]
[1] Department of Economics, Universitas Mataram, Mataram, Indonesia
[2] Department of Social Economics, University of Lagos, Lagos, Nigeria
**Corresponding Author: junaidi.hartawan@unram.ac.id*

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Abstract

Inflation remains a persistent macroeconomic challenge that directly affects household welfare, particularly among low-income populations in urban areas. This study aims to analyze the impact of inflation on purchasing power among low-income households by synthesizing empirical evidence from cross-country studies. A qualitative systematic review approach was employed using recent peer-reviewed articles, reports, and repositories. The findings indicate that inflation significantly reduces real income, alters consumption patterns, and increases economic vulnerability. Households tend to prioritize essential goods while reducing expenditures on non-essential items, leading to declining living standards. The study also finds that inflation disproportionately affects low-income groups due to their limited financial resilience and higher expenditure share on necessities. These results highlight the importance of targeted policy interventions such as income support, price stabilization, and social protection programs. The study contributes to the literature by providing a comparative analysis of inflation impacts across different urban contexts.

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Introduction

Inflation is a central issue in macroeconomic analysis because it directly affects household welfare through its impact on real income and purchasing power. When prices increase continuously, the value of money declines, reducing the ability of households to access goods and services. This effect is particularly pronounced among low-income households, which allocate a larger share of their income to essential consumption. Empirical evidence shows that inflation reduces purchasing power and weakens economic stability at the household level (Prati, 2023). In urban areas, where living costs are structurally higher, the adverse effects of inflation become more visible and more severe.

Urban households face a unique cost structure that intensifies the burden of inflation. Housing, transportation, and food prices tend to rise faster in cities compared to rural areas. As a result, low-income households in urban settings experience a sharper decline in real income. Banda and Silwimba (2025)

found that inflation in Lusaka significantly reduced discretionary spending and forced households to shift toward lower-quality goods. This shift reflects a coping mechanism that prioritizes short-term survival over long-term welfare. Similar patterns were observed in Indonesia, where inflation reduced food quality and disrupted access to education among low-income households in Kupang (Agustin et al., 2025).

The relationship between inflation and purchasing power is strongly linked to income distribution. Low-income households are more vulnerable because their consumption is concentrated on basic goods such as food and energy. These goods often experience higher price volatility during inflationary periods. OECD (2022) reported that inflation reduces purchasing power between 3% and 18%, with the highest impact on households in the lowest income decile. This finding confirms that inflation has a regressive effect, disproportionately affecting economically vulnerable groups. As a result, inflation not only reduces welfare but also exacerbates income inequality.

Studies across different regions consistently show that inflation alters consumption behavior. In Moldova, rising prices forced households to reduce non-essential spending and focus on basic needs (Cojocaru & Popovici, 2025). In Bangladesh, price increases significantly lowered living standards among low-income groups (Ghosh, 2023). These findings indicate that inflation leads to a reallocation of household expenditure toward necessities. This adjustment limits access to education, healthcare, and other services that are essential for long-term human development.

Research from Latin America further supports the argument that inflation weakens purchasing power. Studies conducted in Mexico show that low-income households are highly sensitive to price increases because their income growth does not keep pace with inflation (Anonymous, 2025a). In Colombia, the devaluation of currency has reduced the functional value of small denominations, directly affecting vulnerable populations such as street dwellers (Anonymous, 2025b). These findings highlight that inflation affects not only consumption patterns but also the basic mechanisms of economic exchange among marginalized groups.

In European economies, inflation has been shown to increase inequality and create disparities in perceived price changes. Sipiczki and Varga (2023) demonstrated that low-income households experience higher effective inflation than high-income groups due to differences in consumption baskets. Similarly, Kritikos (2022) found that inflation significantly reduced net household income among lower-income groups in Germany, while government interventions provided only partial relief. These results indicate that policy responses often fail to fully mitigate the unequal impact of inflation.

The impact of inflation is also evident in its interaction with broader macroeconomic variables such as unemployment and poverty. Amukti et al. (2025) analyzed the relationship between inflation and poverty in Indonesia and found that inflation influences economic vulnerability through complex mechanisms. Although the relationship may vary depending on economic conditions, inflation generally reduces purchasing power and increases financial pressure on households. Islamiah (2024) further emphasized that declining purchasing power contributes to rising inequality and poverty levels, particularly in urban areas where living costs are high.

Another important dimension of inflation is its effect on household welfare and well-being. Valdera (2024) reported that households often reduce spending on essential services such as health and education during inflationary periods. This reduction has long-term consequences because it affects human capital development. Similarly, Etang et al. (2022) showed that high inflation in urban South Sudan significantly reduced household resilience and increased dependence on external support. These findings suggest that inflation has both immediate and long-term impacts on welfare.

Consumption behavior under inflation also reflects adaptive strategies adopted by households. Jayaramanavar and Malagi (2025) found that households increase precautionary savings and shift toward lower-cost goods during inflationary periods. This behavior indicates a rational response to economic

uncertainty. However, it also leads to reduced overall consumption and lower quality of life. Mamadou (2023) observed similar patterns in UEMOA countries, where inflation reduced household consumption and weakened economic stability.

Despite the extensive literature on inflation and purchasing power, most studies focus on specific countries or regions. This approach limits the ability to draw general conclusions about the global impact of inflation. Differences in economic structure, policy responses, and social protection systems create variations in how inflation affects households. As a result, there is a need for a comparative analysis that integrates findings across multiple contexts using a consistent analytical framework.

Another limitation in existing research is the lack of synthesis between micro-level household analysis and macroeconomic indicators. Many studies examine either consumption behavior or macroeconomic trends without linking the two. Schulz and Ipsen (2025) emphasized that inflation measurement often underestimates the burden on low-income households because it does not account for income-weighted consumption patterns. This gap highlights the need for a more integrated approach that combines micro and macro perspectives.

This study addresses these gaps by synthesizing empirical findings from multiple regions to analyze the effects of inflation on purchasing power among low-income households in urban areas. The study does not introduce new variables or data but integrates existing evidence to provide a comprehensive understanding of the issue. By focusing on urban contexts, the study ensures comparability across different socio-economic environments.

The contribution of this study lies in its systematic integration of cross-country evidence and its focus on vulnerable populations. The findings are expected to provide a clearer understanding of how inflation affects purchasing power and to support the development of targeted policy interventions. In addition, the study offers a conceptual basis for future research that aims to quantify the relationship between inflation and household welfare.

In conclusion, inflation remains a critical factor that shapes economic inequality and household well-being. Its impact on purchasing power is not uniform but varies across income groups and regions. Low-income households in urban areas face the greatest challenges due to their limited financial capacity and high dependence on essential goods. Understanding these dynamics is essential for designing effective policies that protect vulnerable populations and promote inclusive economic growth.

Methods

Research Design

This study applies a qualitative research design using a systematic literature review approach. The design focuses on synthesizing empirical findings related to the impact of inflation on purchasing power among low-income households in urban areas. A qualitative approach is appropriate because the study aims to integrate and interpret existing evidence rather than generate new primary data. The review follows a structured and transparent process to ensure consistency, replicability, and analytical rigor. The analysis emphasizes identifying patterns, relationships, and recurring findings across different regional contexts.

Data Sources and Selection Criteria

The data used in this study consist of secondary data derived from peer-reviewed journal articles, institutional reports, and academic repositories. All sources are selected from the existing reference list of the study and published between 2022 and 2025. The inclusion criteria are defined as follows: (1) studies that explicitly examine inflation and its impact on purchasing power, (2) studies that focus on low-income

households or vulnerable populations, and (3) studies conducted in urban or comparable socio-economic settings.

A total of 30 documents were included in the analysis, covering diverse geographical regions such as Africa, Europe, Asia, and Latin America. Key sources include empirical studies by Banda and Silwimba (2025), Agustin et al. (2025), Sipiczki and Varga (2023), and international institutional reports such as OECD (2022) and Etang et al. (2022). This selection ensures that the dataset reflects a wide range of socio-economic conditions while maintaining relevance to the research objective.

Data Collection Procedure

The data collection process was conducted through a systematic identification and screening of relevant literature. Each document was reviewed to extract key variables, including the magnitude of inflation, changes in purchasing power, consumption patterns, and socio-economic impacts on low-income households. The extraction process focused on empirical findings rather than theoretical discussions to ensure that the analysis remains evidence-based.

To maintain consistency, all selected studies were coded using a standardized framework. The coding categories include: (1) study location, (2) population characteristics, (3) main findings related to purchasing power, and (4) identified economic impacts. This structured approach allows for a clear comparison across studies and reduces the risk of bias in data interpretation.

Data Analysis Technique

The study employs thematic analysis to examine and synthesize the findings. The analysis process consists of three main stages. First, open coding is conducted to identify recurring themes related to inflation and purchasing power. Second, axial coding is applied to group these themes into broader categories such as consumption adjustment, income erosion, and economic vulnerability. Third, selective coding is used to integrate these categories into a coherent analytical framework.

This method allows the study to identify consistent patterns across different contexts. For example, multiple studies report a decline in real income and a shift toward essential consumption (Cojocaru & Popovici, 2025; Jayaramanavar & Malagi, 2025). Thematic analysis also enables the comparison of findings across regions, highlighting similarities and differences in the impact of inflation.

Validity and Reliability

To ensure validity, the study uses source triangulation by incorporating evidence from multiple regions and types of publications. The inclusion of peer-reviewed articles and institutional reports strengthens the credibility of the findings. In addition, consistency in coding and analysis is maintained through the use of a standardized framework.

Reliability is supported by the transparency of the selection and analysis process. All steps, from data collection to interpretation, are clearly defined and can be replicated by other researchers. The use of explicit inclusion criteria and systematic coding reduces subjectivity and enhances the robustness of the results.

Research Scope and Limitations

This study focuses specifically on low-income households in urban areas to ensure analytical consistency. The scope does not include rural populations or high-income groups. While this focus strengthens the relevance of the findings, it also limits generalization beyond similar socio-economic contexts.

Another limitation is the reliance on secondary data. The study depends on the quality and scope of existing research, which may vary across regions. However, the use of multiple sources helps mitigate this limitation by providing a broader evidence base.

Overall, the methodological approach provides a systematic and reliable framework for analyzing the impact of inflation on purchasing power. The integration of cross-country evidence allows the study to generate comprehensive insights while maintaining analytical rigor and consistency.

Results and Discussion

The analysis synthesizes findings from 30 empirical studies across multiple regions. The results consistently show that inflation reduces purchasing power among low-income households in urban areas. The impact appears in three main dimensions: declining real income, shifts in consumption patterns, and increased economic vulnerability. These findings are presented through structured tables and followed by analytical interpretation.

Table 1. Summary of Empirical Findings on Inflation and Purchasing Power

Author(s)	Region	Key Findings	Impact on Purchasing Power
Banda & Silwimba (2025)	Zambia	Rising inflation reduces discretionary spending	Significant decline
Agustin et al. (2025)	Indonesia	Decreased food quality and education access	Moderate to high decline
OECD (2022)	OECD Countries	Inflation reduces income by 3%–18%	High decline
Cojocaru & Popovici (2025)	Moldova	Increased cost of basic goods	Significant decline
Ghosh (2023)	Bangladesh	Lower standard of living	High decline
Sipiczki & Varga (2023)	Hungary	Higher perceived inflation for low-income groups	Unequal decline
Valdera (2024)	Developing countries	Reduced spending on health and education	Long-term decline
Etang et al. (2022)	South Sudan	Increased dependency on aid	Severe decline

Interpretation:

The table shows consistent evidence that inflation reduces purchasing power across different economic contexts. The magnitude varies, but the direction remains the same. OECD (2022) provides quantitative confirmation, while country-specific studies reinforce the micro-level impact. These findings validate the argument that inflation has a regressive effect.

Table 2. Changes in Household Consumption Patterns during Inflation

Study	Consumption Adjustment	Behavioral Outcome
Jayaramanavar & Malagi (2025)	Shift to low-cost goods	Increased price sensitivity
Mamadou (2023)	Reduced overall consumption	Declining welfare
Syafitri & Rozalinda (2024)	Prioritization of basic needs	Reduced non-essential spending
Anonymous (2025a)	Focus on essential goods	Limited consumption diversity
Islamiah (2024)	Reduced access to services	Increased inequality

Interpretation:

Households respond to inflation by reallocating spending toward essential goods. This shift limits access to education, healthcare, and other services. The pattern appears consistently across regions, indicating a structural response rather than a context-specific reaction.

Table 3. Structural Factors Amplifying Inflation Impact

Factor	Evidence	Implication
Low income levels	Schulz & Ipsen (2025)	Higher vulnerability
Wage stagnation	Anonymous (2025a)	Reduced real income
High food expenditure share	Tavadyan (2025)	Stronger inflation exposure
Weak social protection	Etang et al. (2022)	Increased economic risk
Income inequality	Sipiczki & Varga (2023)	Unequal burden distribution

Interpretation:

These factors explain why inflation impacts low-income households more severely. High dependence on essential goods increases exposure to price changes. Limited income growth prevents households from adjusting effectively.

Discussion

The findings confirm that inflation has a direct and measurable impact on purchasing power. The reduction in real income is the primary transmission channel. Cojocaru and Popovici (2025) show that rising prices reduce the ability to purchase basic goods. This aligns with OECD (2022), which quantifies the decline in income levels across countries.

The study also identifies consumption adjustment as a key response mechanism. Households prioritize essential goods such as food and housing. Jayaramanavar and Malagi (2025) explain that this behavior reflects rational decision-making under economic pressure. However, this adjustment reduces overall welfare because it limits access to non-essential but important services.

Another important finding is the unequal impact of inflation. Low-income households experience stronger effects due to structural constraints. Schulz and Ipsen (2025) highlight that these households spend a larger share of income on inflation-sensitive goods. Sipiczki and Varga (2023) further show that perceived inflation is higher among these groups, which intensifies economic pressure.

The results also reveal long-term consequences. Valdera (2024) and Etang et al. (2022) demonstrate that reduced spending on health and education affects human capital development. This creates a cycle where short-term coping strategies lead to long-term welfare losses.

Overall, the findings are consistent across different regions and economic systems. Inflation reduces purchasing power, alters consumption behavior, and increases inequality. The evidence supports the need for targeted policy interventions that address both income stability and price control.

Conclusion

This study confirms that inflation has a direct and significant impact on the purchasing power of low-income households in urban areas. Rising prices of goods and services reduce real income and force households to adjust their consumption behavior. The findings show a consistent pattern across the reviewed studies. Households prioritize essential needs such as food, housing, and transportation, while reducing spending on non-essential goods. This adjustment reflects a survival strategy rather than a preference shift.

The analysis also shows that persistent inflation leads to a measurable decline in living standards. Limited income flexibility makes low-income groups more exposed to price volatility. As a result, their economic resilience weakens over time. Several studies indicate that this condition increases financial stress, reduces savings capacity, and limits access to basic services. These effects reinforce structural inequality in urban settings.

From a theoretical perspective, the findings support the concept of real income erosion and consumption constraint under inflationary pressure. Empirical evidence across regions confirms that

inflation does not affect all groups equally. Low-income households face a disproportionate burden due to their high dependence on fixed income and essential consumption.

This study has practical implications for policymakers. Targeted interventions are required to protect vulnerable groups. These include price stabilization policies, food subsidies, and income support programs. Without such measures, inflation can deepen urban poverty and social inequality.

Future research should focus on primary data collection at the household level to capture more precise behavioral responses. Longitudinal studies are also needed to assess long-term impacts and policy effectiveness.

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